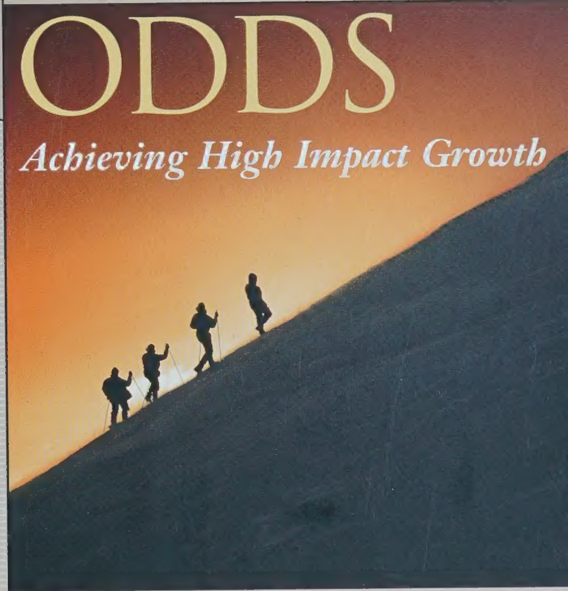
BEATING THE ODDS



Achieving High Impact Growth

2002

CENTURION ENERGY INTERNATIONAL INC. ANNUAL REPORT 2002

Annual Meeting

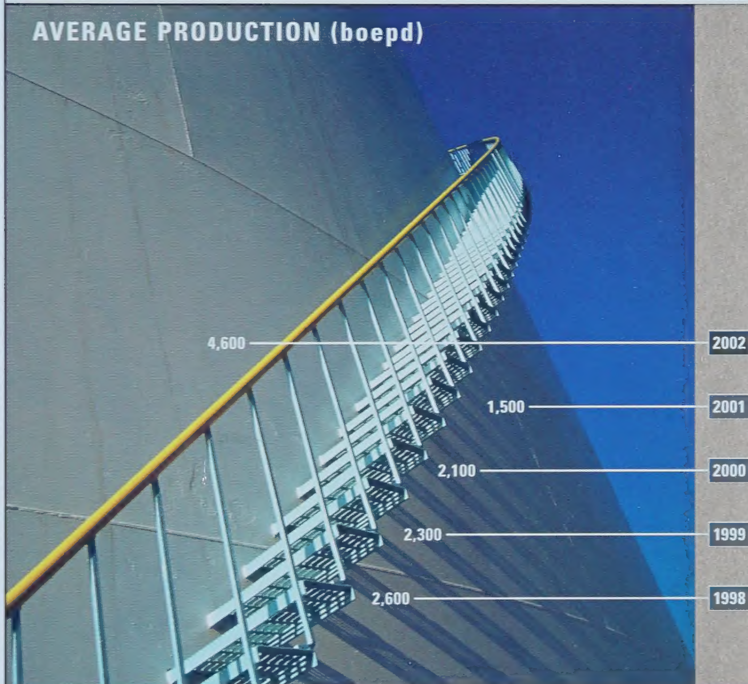
The Annual and Special Shareholders Meeting will be held on Wednesday, June 18, 2003 at 3:00 p.m. in the McMurray Room of the Calgary Petroleum Club, 319 – 5th Ave. S.W., Calgary, Alberta. Shareholders and others interested in the affairs of the Company are encouraged to attend.

Contents

Forward Looking Statements

This annual report contains forward-looking statements based on current expectations and the Company's growth strategy, but which involve risk and uncertainties. Actual results may differ materially due to changes in production levels, general economic and business conditions, fluctuations in oil and gas supply and demand and changes in commodity prices.

ACHIEVING HIGH IMPACT GROWTH



2002 MILESTONES

JANUARY 3

In Tunisia, Centurion resumed field production [illegible] Manzah Field under a pressure maintenance [illegible]

MARCH 31

Centurion production eclipsed the 5,000 boe per day level with commencement of production [illegible] Field in Egypt.

MARCH 31

In Tunisia, Centurion closed project [illegible] plant project in the amount of US$20.2 [illegible]

SEPTEMBER 28

Centurion signed a natural gas contract [illegible] production for 35 mmcf per day (approximately [illegible]

DECEMBER 15

Centurion's plan of development for the [illegible] gas development was approved by the Egyptian [illegible]

HISTORY OF PROFITABILITY
STRATEGIES FOR CONTINUED SUCCESS

ESTABLISH A SOLID PRODUCTION BASE

Centurion embarked on a quest to build a successful international oil company in 1997 with clear strategies. These included establishing a solid production base by acquiring non-core assets from major oil companies. The Company purchased properties in Tunisia and has applied new technologies to develop and maximize production. Centurion has maintained a level of production between 1,500 boe per day and 2,500 boe per day throughout its five-year history. In 2002, Centurion's production eclipsed the 5,000 boe per day level.

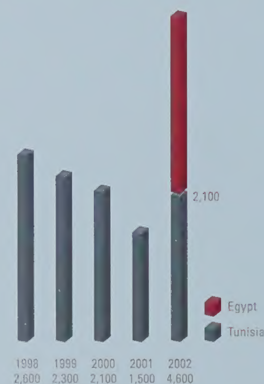
ESTABLISH A LOW COST OPERATING AND OVERHEAD ENVIRONMENT

Centurion operates in areas where operating costs are reasonable and takes a proactive approach to limiting costs as much as possible. The Company's success is reflected in its ability to deliver positive earnings and cash flow in every operating year since inception, including periods when commodity prices were at all-time lows – including US$9.00 per barrel of crude oil in 1999.

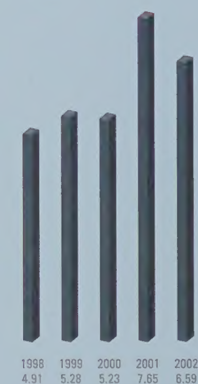
GROW RESERVES AND PRODUCTION THROUGH SUCCESSFUL EXPLORATION AND FIELD OPTIMIZATION

Centurion exited 2002 at more than 5,000 boe per day and production is expected to double to more than 10,000 boe per day in 2003 as a result of tying in additional proved Egyptian natural gas reserves.

Production by Country
(boepd)



Operating Costs
($/boe)



Cash Flow
(Cdn$ 000s)

Net Income
(Cdn$ 000s)

LIMITING RISK

Luxor Temple, Upper Egypt.

Djerba Island beaches, Tunisia.

COUNTRIES HAVE SAFE AND STABLE POLITICAL AND FISCAL REGIMES

Both Tunisia and Egypt have very stable, secular governments led by political parties that have been in power for more than a five-decade period. The fiscal regime in both countries is attractive for foreign investment and provides positive financial returns to exploration and production companies. The fiscal arrangements have always been honoured and any changes that were made to the arrangements helped to encourage new investment. Neither Tunisia nor Egypt has currency controls and Centurion has freely moved capital in and out of both countries.

WELL QUALIFIED LOCAL WORK FORCES

Centurion's policy is to hire local Nationals for as many positions as possible, including senior technical personnel and administrative management positions, in order to minimize operating and overhead costs and to contribute to the economic well-being of host countries. Both Tunisia and Egypt have a well educated and hard-working labour force to draw on.

TOURISM – A DOMINANT INDUSTRY

Both Tunisia and Egypt are major tourist destinations for Europe and the rest of the world. Both countries have extraordinary archaeological sites and beautiful beaches. Tourism is one of the main sources of foreign currency for both countries and each is very careful to ensure that it retains a reputation as a safe destination travel spot.

ACHIEVING HIGH IMPACT GROWTH

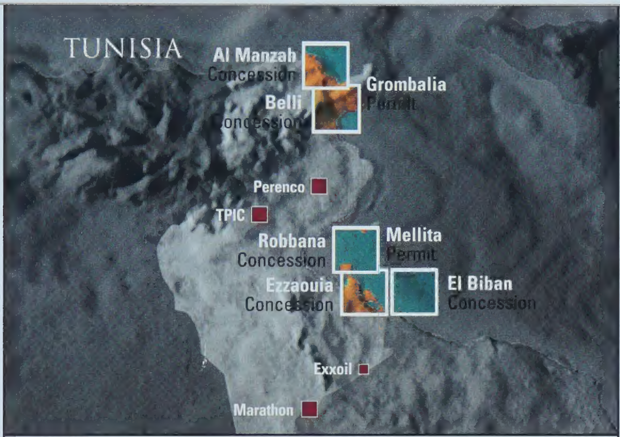
El Wastani gas plant.

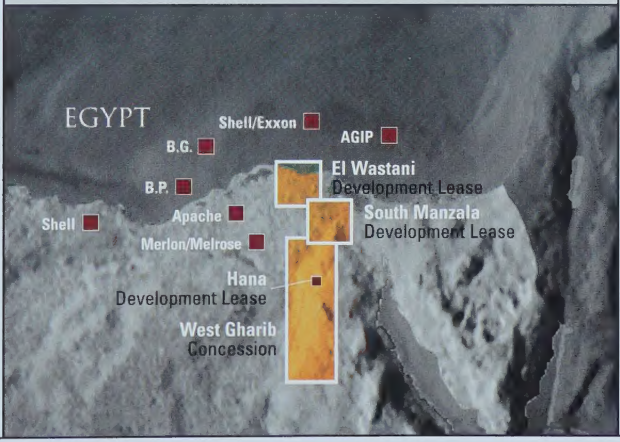
In less than five years, Centurion Energy has grown production to more than 5,000 boe per day from oil and gas fields in Egypt and Tunisia, added reserves totaling 38.3 million boe and constructed a 27-megawatt electricity-generating powerplant.

Over the next 12 months, Centurion expects to increase production to more than 10,000 boe per day by tying in additional proved reserves in Egypt.

Clearly, Centurion is beating the odds for a junior energy company competing internationally.

EXPLORATION AND DEVELOPMENT





WORLD-CLASS EXPLORATION PLAYS

Centurion has an excellent inventory of exploration acreage with the potential to significantly increase production and reserves. These plays include:

TUNISIA

- **El Biban and Ezzaouia Triassic exploration plays**
  Multi-trillion cubic feet of liquids-rich gas potential.

- **Mellita Permit**
  A new trend of 16 leads mapped.

- **Robbana Concession**
  Promising new play.

EGYPT

- **Egypt Nile Delta Region**
  Based on the Company's interpretation of seismic data, Centurion has targeted additional exploration lands for acquisition.

- **West Gharib**
  Centurion and the operator are finalizing the geological and geophysical re-mapping of the Concession area. The partners have identified several prospects which are being considered for future drilling.

OTHER

Centurion continues to review other plays in both Tunisia and Egypt as well as other countries in North Africa.

FINANCIAL AND OPERATING HIGHLIGHTS

	2002	2001
FINANCIAL		
Oil and gas revenue	34,304	14,664
Cash flow from operations	22,113	8,105
Per share ($)	0.35	0.13
Net income	6,488	3,326
Per share ($)	0.10	0.05
Capital expenditures	21,398	46,589
Working capital (deficit)	4,112	(18,061)
Shares issued and outstanding (000s)	62,313	62,153
OPERATING		
Production (boe)	1,664,000	558,000
Daily average production (boepd)	4,600	1,500
Reserves, proved plus one-half probable (mboe)	27,780	28,700
Land, net acres (millions)	1.5	1.9

* Boe figures calculated on basis of 6 mcf = 1 barrel

El Biban storage tank.

A 200,000 barrel shipping tank located at El Biban battery site used for oil storage prior to exporting oil to international markets.

PRESIDENT'S MESSAGE

Said S. Arrata, P.Eng.
President and Chief Executive Officer

"Centurion's projects in both Egypt and Tunisia are best characterized as high-impact projects, each contributing significantly to production and earnings."

Our theme of *Beating the Odds* reflects Centurion's commitment to an aggressive growth strategy and continued success despite the business challenges that often confront junior companies operating beyond Canada. More important, the theme symbolizes the Company's tremendous progress in finding new reserves of crude oil and natural gas, developing its discoveries, and building the infrastructure to transport and process new production.

Centurion is one of a small handful of junior Canadian companies that has chosen to compete with large multi-national corporations in the high risk/high reward international oil and gas business. Our business plan from the outset five years ago was to establish a production base by purchasing non-core assets from major companies that were exiting the region and to maximize their production and revenue stream while exploring for new reserves.

To date, the Company's focus has been North Africa. With operations in Egypt and Tunisia, Centurion has established itself as an oil and natural gas finder and producer in an area known for its large reserves. Centurion's projects in both Egypt and Tunisia are best characterized as high-impact projects, each contributing significantly to production and earnings.

Last year, I stated that Centurion was poised for major growth in 2002. I am pleased to report that our production in 2002 rose sharply to average 4,600 boe per day compared to 1,500 boe per day in 2001, a three-fold increase. Cash flow from operations for 2002 attained a record of $22.1 million or $0.35 per share, an increase of 173 percent over 2001. Aided by very strong oil prices, net income reached $6.5 million or $0.10 per share, doubling 2001 levels.

Operations Update

In Egypt, the Company's first natural gas project came on stream on March 31, 2002 adding approximately 2,700 boe per day of new production. To year-end 2002, the El Wastani Field had produced a cumulative total of 3.17 billion cubic feet of natural gas, 130,000 barrels of condensate and 60,000 barrels of natural gas liquids. A second high-impact project in the El Manzala area is currently in progress. The Company's second natural gas project, which involves placing three new natural gas fields on production, is underway, with completion expected during the third quarter of 2003. This project alone is expected to add approximately 6,000 boe per day of new production in 2003.

Centurion's oil production from the West Gharib area averaged 460 barrels per day in 2002. Field optimization work continued in the Hana Field in an effort to increase production, reduce operating costs and minimize equipment downtime. Currently the field is producing 1,520 barrels of oil per day or 455 barrels per day net to Centurion, which has a 30 percent share of the project. The Company's exploration drilling near the Hana Field was disappointing. Further geological and geophysical work is required to fully assess the exploratory potential remaining in this area.

In Tunisia, Centurion continued to aggressively exploit its producing fields. The Company arrested and reversed production declines. This is mainly attributable to the Al Manzah Field which continued to respond remarkably well to the waterflood scheme which started in late 2001. The Company took measures to reduce operating costs in Al Manzah and El Biban fields, the full impact of which will be realized in 2003. Construction operations for the SEEB project were nearing completion at year-end 2002. Commercial operations are scheduled to start in Q2 2003.

Centurion carried out several technical studies on producing fields and exploration concessions in order to identify further development opportunities and new exploration prospects. The Company identified three new development wells, including one in the El Biban Field and two in the Ezzaouia Field.

The Company is continuing its efforts to farm out high risk, high reward type exploration opportunities.

Operating Efficiencies

With the start of low cost natural gas production in Egypt in 2002, Centurion's average operating costs fell by 16 percent to $6.59 per boe from the prior year's $7.65 per boe. General and administrative costs were also significantly reduced by 188 percent to $1.14 per boe in 2002 from $3.28 per boe in 2001. These costs will be reduced further with the commencement of new gas production in Egypt.

The Company's share price responded relatively well to the sharp increase in production during 2002 and associated improvements in profit indicators. Centurion's share price exited 2002 at $0.69 per share versus $0.40 per share in 2001. Despite this improvement, the Company's shares continue to trade at a significant discount to net asset value. We expect that once anticipated production gains are realized in the second half of 2003, the share price will reflect better cash flow and earnings multiples.

"With the start of low cost natural gas production in Egypt in 2002, Centurion's general and administrative costs fell by 188 percent to $1.14 per boe from the prior year's $3.28 per boe."

Calgary office management meeting with President Said Arrata.

An irrigation canal in the Nile Delta Region, Egypt.

North African Geopolitical Stability

I am often asked to comment on the geopolitical environment that we encounter in Tunisia and Egypt. I state, most emphatically, that North Africa – and in particular Tunisia and Egypt – are very stable geopolitically and maintain very strong relationships with North American and European companies. Both countries have stable governments with a track record of honouring concession agreements for oil and natural gas operations. Any changes made to the fiscal terms of contracts have been favourable to encourage new capital investment. Both Egypt and Tunisia are major tourist destinations for Europeans and other international visitors and are very protective of this industry.

2003 Outlook

Our goals for 2003 include:

- Double the Company's production by year-end;
- Drill up to three low risk development wells in Tunisia;
- Farm out a high risk exploration block in Tunisia;
- Continue searching for new exploration, development and acquisition opportunities in North Africa; and
- List the Company's shares on the Alternative Investment Market (AIM) of the London Stock Exchange as a dual listing with the Toronto Stock Exchange (TSX).

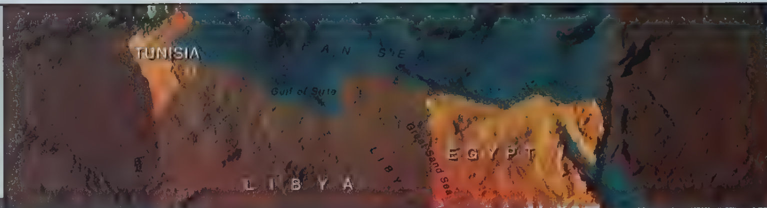
Acknowledgements

Finally, I wish to recognize the high-quality people behind Centurion – our Board of Directors for their continued strategic guidance and wise counsel, our hard-working and dedicated employees in Egypt, Tunisia and Calgary and most of all, our shareholders for their continued support.

On behalf of the Board of Directors,

Said S. Arrata, P.Eng.
President and Chief Executive Officer
May 7, 2003

EXPLORATION AND DEVELOPMENT



El Biban storage tank.

The main thrust of Centurion's operations during 2002 was to maximize production from existing fields and lower field operating costs. Operations in 2002 also focused on accelerating the progress of new projects in order to place new discoveries on production. The following briefly summarizes Centurion's operational achievements during the year.

- Increased Company production to 4,600 boe per day, a three-fold increase over 2001 levels;
- Reduced operating costs by 16 percent to $6.59 per boe from $7.65 per boe in 2001;
- Commenced first natural gas production in Egypt in March 2002, adding approximately 2,700 boe per day to Centurion's production;
- Negotiated and obtained Egyptian government approvals to proceed with the development of new field discoveries in the South Manzala area;
- Completed the natural gas interconnect facilities required to supply natural gas to the SEEB power project in Tunisia;
- Identified three new development drilling locations in Tunisia that have the potential to add significant new oil reserves; and
- Negotiated and obtained Tunisian government approvals for term extensions of the Grombalia and Mellita permits.

The start of production from the El Wastani Field in 2002 ushered in a new era for Centurion, moving the Company beyond the 5,000 boe-per-day level.


El Wastani Field pipeline under construction

El Manzala Concession

The El Wastani Field in Egypt commenced production on March 31, 2002 at 12 mmcf per day of natural gas and 700 barrels per day of condensate plus natural gas liquids. The event ushered in a new era for Centurion. With the new Egyptian production, the Company eclipsed the 5,000 boe per day production threshold for the first time in its five-year history.

The El Wastani Field, located in the north portion of the El Manzala Concession in the Nile Delta, continues to produce at predicted rates with natural gas, condensate and natural gas liquids production averaging about 2,700 boe per day. The Egyptian authorities have also approved the development plan for the East El Wastani natural gas and condensate discovery. This field will be further evaluated with 3-D seismic and possibly another exploratory well in 2004.

Natural gas from both fields is contracted to Egas, the Egyptian government gas company, at a price of US$2.65 per mbtu as long as the reference price of Brent crude oil is greater than US$20 per barrel. Due to the high hydrocarbon liquid content of the El Wastani natural gas, Centurion receives a price of approximately US$2.80 per mcf.

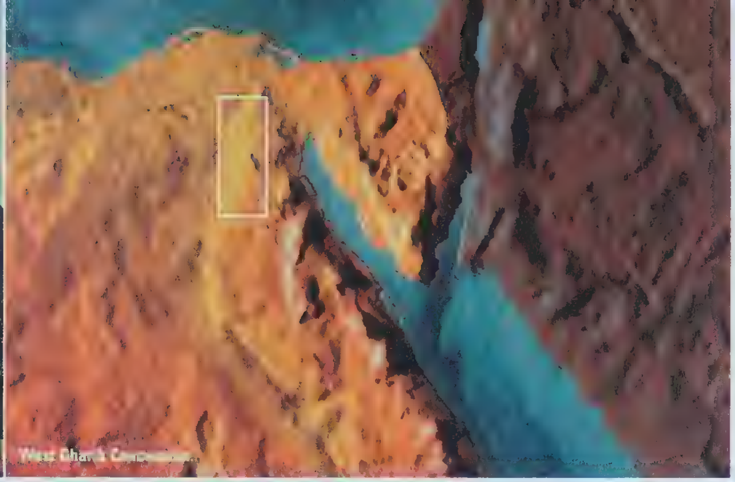
The Abu Monkar natural gas Field, located in the South Manzala area, was discovered by Centurion in 1998. Two additional natural gas fields, Gelgel and Sherbean, were discovered during Centurion's 2001 exploration drilling program. A plan of development to bring natural gas from the three fields to market has been approved by the Egyptian government.

Egas has signed a natural gas contract for 35 mmcf per day of natural gas sales at a contract price of US$2.65 per mbtu. Because natural gas from the southern area is dry, an uplift in the gas price is not expected.

The plan of development for the South Manzala natural gas fields consists of building a central processing facility (compression, dehydration and gas/water separation) near the Gelgel Field, installing gathering lines to the Sherbean, Abu Monkar and Gelgel fields and shipping the natural gas north through a 32-kilometre pipeline to tie into the main Egyptian gas grid at Damietta. The project is estimated to cost US$10.0 million.

The material for the pipeline project arrived in Egypt in late February. Centurion has awarded contracts for the central processing facility and pipeline construction. We expect to have initial natural gas production from the South Manzala fields during the third quarter of 2003.

Cairo office management meeting with President Said Arrata.



West Gharib Concession.

West Gharib Concession

Hana Field

The Hana Field is currently producing approximately 1,520 barrels of oil per day from eight wells. The operator has begun to replace the jet pumps with progressive cavity pumps (PCP), resulting in significantly enhanced well performance. Four PCPs have been installed to date and an ongoing program will eventually replace the remaining pumps. This program has lowered field operating costs and improved the netback. Centurion will benefit from still higher netbacks after production is re-routed to the Gupco Oil Terminal. The Company will receive an additional US$2.00 per barrel because the oil will be sold as part of a higher-gravity crude oil blend.

Exploration

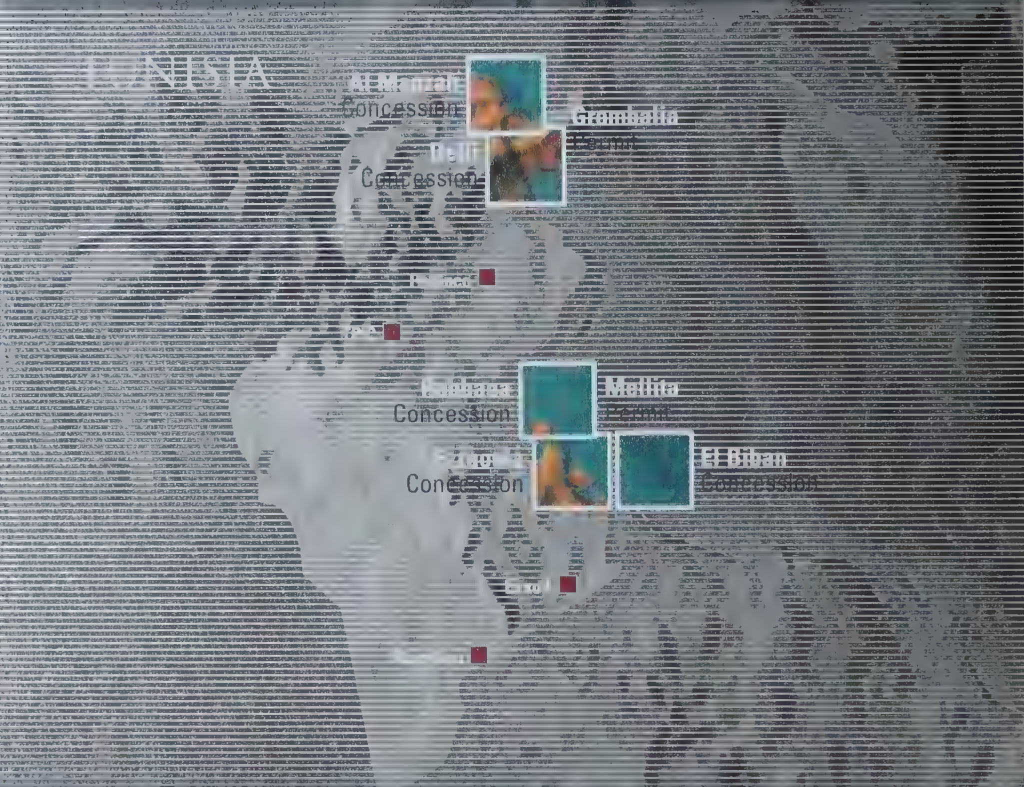
Testing operations for the Farag-1 well drilled in March 2002 were delayed until pumping equipment became available. The results of the testing operations were inconclusive and data is being reviewed to determine if the heavy oil discovery has any commercial potential.

Testing of the Hana South well drilled in February 2002 is awaiting the availability of pumping equipment. Initial test rates were inaccurate and included the recovery of drilling fluids. Subsequent analysis indicates a heavy oil reservoir which has yet to be evaluated for commerciality.

Centurion and the operator are finalizing the geological and geophysical re-mapping of the Concession area. The partners have identified several leads which are being considered for possible drilling during 2003.

New Prospects

Centurion continues to pursue growth opportunities in Egypt. The Company evaluated several farm-in opportunities during 2002 but none met our investment or strategic planning criteria.



1998

El Biban Field commenced production. It has produced over 2.5 million barrels to date.

[illegible]

2000

Signed joint development agreement with [illegible]

2001

[illegible]

2002

[illegible] 3-D seismic program confirmed [illegible]sible Jurassic Field extension and [illegible]

2003

[illegible]


Tunisia office ma[illegible]


El Biban [illegible]

Tunisia

El Biban Concession

The El Biban offshore Concession, located approximately 20 kilometres southeast of the popular resort of Djerba Island, is held until year-end 2013 without further commitments. At year-end 2002, total cumulative production from the field was 2.5 million barrels. Average daily gross production from the field was 850 barrels.

Managing water disposal has been the major factor in controlling operating costs since April 2000. In December 2002, after evaluating a number of alternatives, Centurion installed a second-stage coalescing unit to reduce total hydrocarbon content to less than 10 ppm, enabling the produced water to be disposed in the sea.

Water production can now be managed in a cost-effective and environmentally sensitive manner, with anticipated savings for 2003 of US$1.0 million.

The areal extent of the field was increased by approximately 25 percent in 2002, following reprocessing of 2-D seismic data. The new seismic map was used to build a reservoir simulation model, and helped to locate the next development well. The model predicts original oil-in-place of 24.5 million barrels and natural gas-in-place of 56.4 billion cubic feet. The simulation has predicted that 3.7 million barrels of remaining oil and condensate reserves and 32 billion cubic feet of gas can be recovered from the existing well. A possible infill well could recover additional oil reserves.

Centurion is searching for a timely, cost-effective solution to drilling this development well.

Ezzaouia Concession

The Ezzaouia Concession is held until December 31, 2020 with no additional work commitments. All stratigraphic horizons to basement are included in the Concession.

The field came on production in 1991 and to year-end 2002 has produced 26.8 million barrels of oil, 14.5 billion cubic feet of natural gas and 51.6 million barrels of water. During 2002, gross production averaged 1,360 barrels of oil per day.

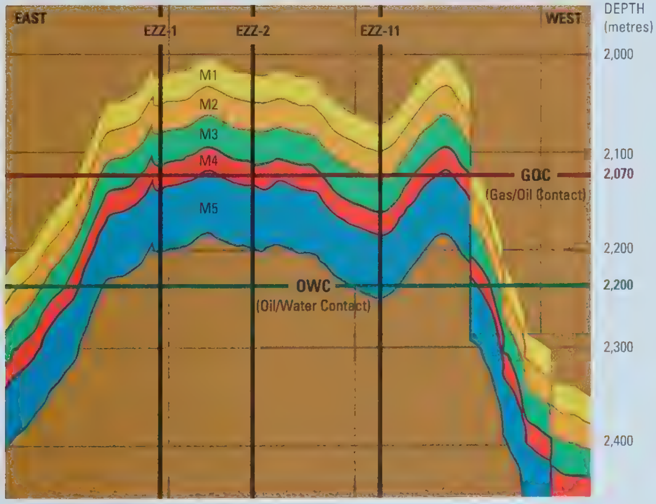
Centurion made significant progress during the year on a field optimization study which includes new development well locations for primary production and re-evaluation of remaining potential in producing and shut-in wells to justify workovers. The study is also examining the potential for secondary recovery, using water that is already being produced and disposed in the field.

Existing 2-D data, though poor in quality, indicated possible structures south of the main producing block that could be even higher than the main block, but were undrilled and above the oil-water contact. Interpretation of the newly acquired 3-D seismic survey offered very encouraging results. The data confirmed a fault block that is similar in size to the main block, with the potential to be as productive.

Ezzaouia Jurassic structure map.

Al Manzah Field production facilities.

Tunisian office staff with head office controller Paul McDonnell.



Ezzaouia seismic profile.

Al Manzah Concession

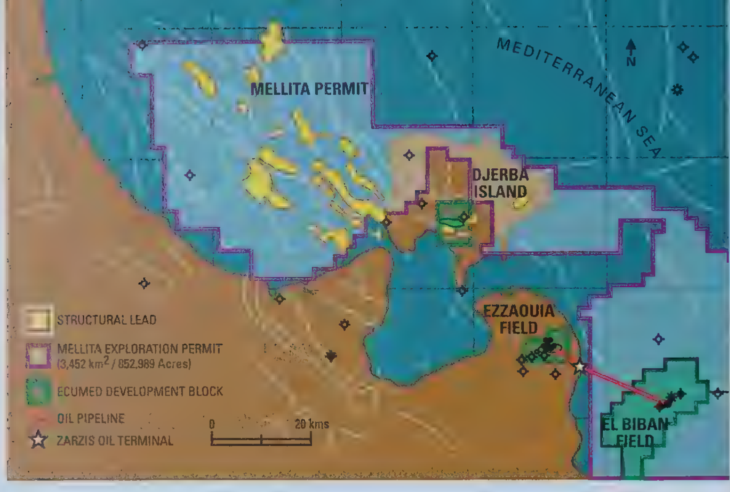
The Al Manzah Field, discovered in November 1998, has thus far exceeded expectations and during 2002 produced 489,000 barrels of oil. The field is currently producing 2,000 barrels per day, with over 1.3 million barrels of cumulative production to date.

Centurion is carrying out a waterflood on the field and has been able to maintain pressure communication between the downdip AMZ-3 location and the AMZ-2 producer updip on the west flank of the structure. Approximately 4,000 barrels of water per day are injected to produce 2,000 barrels of oil per day.

Centurion achieved a significant reduction in operating costs by purchasing the field production facilities previously rented. The cost of the equipment was paid out in three months. The current operating cost is remarkably low at $2.82 per barrel, which includes the cost of trucking the oil 120 kilometres to the Bizerte refinery and storage of the oil at the refinery.

The Grombalia Exploration Permit

The Grombalia Permit is an under-explored area with only five exploration wells drilled, including two discoveries. Centurion as operator is seeking a one-year extension of the Permit to integrate the results of Sidi Mehrez #1 abandoned well and re-evaluate the remaining exploration potential. There is also potential to test the deeper Jurassic on the concession; however, reprocessing of existing seismic data is essential to better define the deeper opportunity.




SEEB power plant gas turbines.

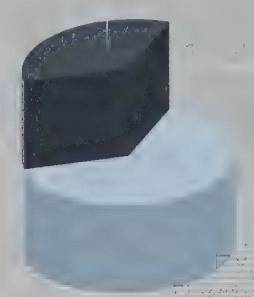
Mellita Permit

In 2002, Centurion relinquished 50 percent of the Mellita Permit that had little or no prospectivity. At the same time, the Company was granted a two-year extension of the remainder of the Permit to September 2004 plus a new area west of Djerba Island was added. To date, Centurion has identified a prospective area with 16 structural leads that will be verified by a 2-D seismic program in the second half of 2003. Under the terms of the Permit, Centurion must complete 500 kilometres of new seismic and drill one well by September 2004.

SEEB Power Project

The SEEB power project, a joint-venture project between Centurion and Caterpillar Power Ventures Inc., is designed to use natural gas currently being flared at both the Ezzaouia and El Biban fields. The plant, which is expected to be operational in Q2 2003, is designed to generate 27 megawatts per hour of electricity.

The power plant will utilize approximately seven mmcf per day of natural gas. A power purchase agreement has been signed with la Société Tunisienne d'Electricité et du Gaz (STEG), the state company that is authorized to buy and distribute electricity.



Reserves Summary

As at December 31, 2002

	Oil	Gas	Condensate	Combined				
	(mmbbls)	(bcf)	(mmbbls)	(mmboe***)				
Proved developed	3.12	30.57	0.77	8.98	68.37	48.42	43.48	40.05
Proved undeveloped	0.18	47.40	0.18	8.26	90.16	69.59	61.55	54.67
Total proved	3.30	77.97	0.95	17.24	158.53	118.01	105.03	94.72
Probable	2.66	102.98	1.25	21.08	132.81	76.65	61.00	49.71
Proved plus probable	5.96	180.95	2.20	38.32	291.34	194.66	166.03	144.43
Less one-half probable	1.33	51.49	0.63	10.54	66.40	38.32	30.50	24.85
Proved plus one-half probable	4.63	129.46	1.57	27.78	224.94	156.34	135.53	119.58

As evaluated by APA Petroleum Engineering Inc., report effective December 31, 2002

* 27.3 billion cubic feet of gas reserves and 0.88 million barrels of condensate in Tunisia (proved plus one-half probable) are dependent on the completion of the Company's natural gas-fueled electrical power generation project which is under construction and due for start-up in Q2 2003.

** The cash flow amounts were determined on an after-tax basis using present value discounted at constant prices, based on US$22.50 Brent per barrel. The constant price used for gas in Tunisia was US$0.35 per mcf and for gas sales in Egypt was US$2.65 per mbtu. Net cash flow (after income taxes) for Tunisian gas includes a share of profits from the sale of electricity.

***boe – barrels of oil equivalent, gas converted at 6 mcf = 1 barrel.

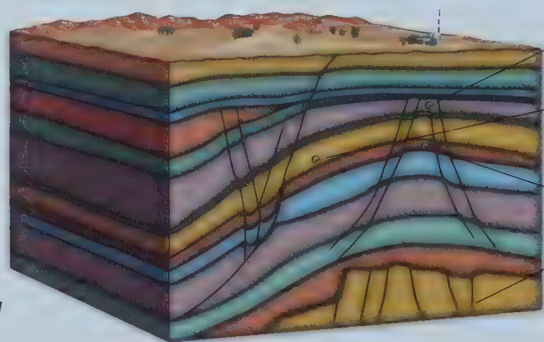
Centurion has a strong reserve base with current production over 5,000 boe per day, which is poised to increase to over 10,000 boe per day during the third quarter of 2003. The resultant cash flow will provide the resources to search for new exploration and acquisition opportunities.

Centurion has exciting plays in its own land inventory and geological data base including:

Tunisia

The deep Triassic prospects under the Cretaceous and Jurassic production at Ezzaoiua and El Biban, which could hold two to three trillion cubic feet of natural gas each, are becoming increasingly significant. Integration of the 3-D seismic in the regional geology confirms the play is more extensive than originally thought. The prospects are ready to drill and efforts are underway to identify prospective partners to test these prospects.

Interpretation of the Ezzaouia 3-D seismic program has also identified a southern extension of the field in the form of an undrilled structure similar to the field. Centurion plans to drill two wells by year-end 2003 to evaluate the potential of this southern extension. Drilling success, coupled with optimization of the field, would result in the recovery of additional reserves and arrest the field's production decline.



Ezzaouia Cross-Section

Mellita Permit and Djerba Island

Centurion has confirmed plans to explore a play trend of 16 offshore prospects and one onshore prospect identified on the newly reconfigured Mellita Permit. The play trend is in reservoirs similar to the Ezzaouia and El Biban oil fields. Discussions with a major oil company to jointly explore this new and potentially large play are progressing.

On Djerba Island, Centurion is pursuing a newly developed, low risk prospect in the immediate vicinity of our Robbana oil Field. The target is in a thick, deeper Cretaceous oil reservoir.

Egypt

El Manzala Nile Delta Concessions

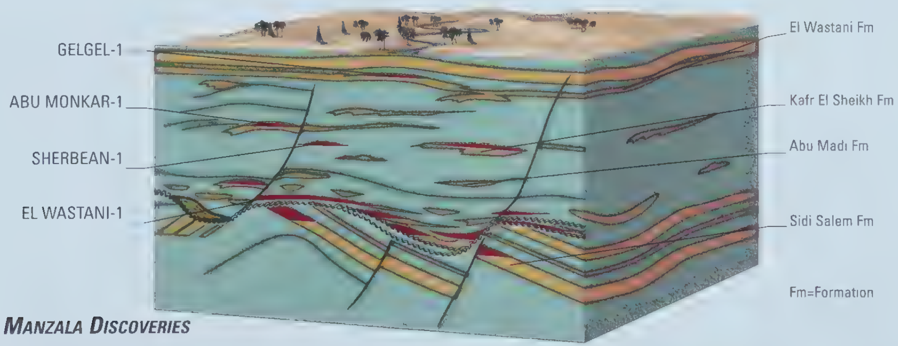
Centurion is well positioned for significant growth in Egypt. Stable production from the El Wastani natural gas Field will be supplemented shortly by new production from the South Manzala natural gas fields. Total corporate production is expected to increase to over 10,000 boe per day once construction of the production infrastructure is completed. The infrastructure, and the clear understanding of the various plays will provide Centurion with a definite advantage over competitors as the Company pursues additional growth opportunities in the general area.

West Gharib Concession

Centurion is firming up several new leads and prospects for drilling. Positive drilling results, as well as production optimization in the Hana Field, would add to current oil production levels and lower operating costs.

Expanding to Other Countr

Centurion continues to pursue opportunities to expand operations to other countries in North Africa. We continue to review all posted acreage in Egypt and Tunisia and to look at possible production purchases in both countries.



El Manzala Discoveries

DISCUSSION & ANALYSIS

…addresses operations, financial results, corporate events and business risks.

Operations in 2002 were highlighted by two significant events that contributed to Centurion reaching a record level of production: the implementation of the Al Manzah pressure maintenance project in Tunisia in late 2001 with production averaging 1,785 barrels per day (1,339 net to Centurion's working interest), and the commencement of production from the El Wastani Field in Egypt in late March added 2,700 boe per day.

Production Summary

	2002	2001
Average boe/d	**4,600**	1,500
Net production boe	**1,664,000**	558,000

Reserves

Established reserves, defined as proved plus one-half probable, at December 31, 2002 were 27.8 million boe. Additions to reserves for the year of 0.8 million boe were technical revisions. After subtracting production of 1.7 million boe for the year, Centurion's established reserves decreased by 0.9 million boe.

Established Reserves (mmboe)

	Tunisia	Egypt	Total
2002	9.7	18.1	27.8
2001	9.6	19.1	28.7
2000	12.0	12.6	24.6

Finding and Development Costs

The cycle for finding and development of Centurion's fields is longer than one year. Therefore, the analysis of finding and development costs is a series of estimates for the fields, first in the exploration stage and then in the development phase. When Centurion makes an exploration discovery, the Company reports a finding and development cost in the year of discovery based upon the best estimates of costs to develop the reserves assigned to the discovery in our initial engineered reserve predictions. As the field is developed and more information is accumulated, Centurion updates its estimates of finding costs for full-field development. During 2002, the Company continued to focus on bringing our Egyptian gas reserves to full development. The estimate of finding and development costs for these operations has not changed significantly from the previous estimate of $3.50 per boe, based on established reserves. From inception to date, the average finding costs for Tunisia are $5.38 per boe, bringing our Company-wide finding cost to $4.44 per boe based on established reserves.

Statement of Earnings

Revenue

Oil and gas sales, net of royalties for 2002, amounted to $34,304,000 compared to $14,664,000 for 2001. The main reasons for the increase were the commencement of Egyptian production on March 31, 2002 and the resumption of production from the Al Manzah Field in June 2002. Production commenced from the El Wastani Field in Egypt, adding some 2,700 boe per day of new production. Production from the Hana Field, which was being capitalized as incidental pre-production cash flow, also added about 460 barrels per day to sales revenues. The Egyptian production, combined with the resumption of production at Al Manzah in Tunisia resulted in a three-fold increase in barrels produced during 2002, and accounted for $18.4 million of the increased revenues for 2002 compared to 2001. Stronger prices, particularly in late 2002, also contributed to an increase in revenue.

Oil and gas sales in Tunisia, net of royalties for 2002, amounted to $20,764,000 compared to $14,664,000 for 2001. The increase in Tunisian sales can be largely attributed to the resumption of Al Manzah production in 2002 and increased oil sales prices received. Oil, gas and condensate sales in Egypt, net of royalties for 2002, amounted to $13,540,000 (2001 – nil).

At December 31, 2002, approximately 38,000 barrels of production remained in inventory at the Zarzis oil terminal in Tunisia. This inventory represents Tunisian production that was not recorded as a sale in 2002. The sales value of this inventory approximates $1.8 million and was sold in addition to the production of the first quarter of 2003 in March 2003. Hedge losses of $1,161,000 were incurred during the year associated with costless collars required under the Standard Bank Financing. These losses were netted against oil and gas revenue for the year.

Royalty Expense

Royalty expense for 2002 was $17,655,000 (34 percent of gross sales) compared to $1,037,000 (7 percent of gross sales) for 2001. The increase in the expense for the year is attributable to commencement of production from Centurion's Egyptian assets. The fiscal arrangement in Egypt is a production sharing contract whereby the government receives a share of the oil, gas and condensate in lieu of royalty and income taxes. Centurion records a royalty rate of approximately 50 percent and an income tax rate of 43 percent. As a result of the higher royalty rate in Egypt, the combined operations rate increased.

Royalty expense for 2002 also includes an amount of $2,399,000 (2001 – nil), related to a gross overriding royalty on Al Manzah production. Centurion arranged financing for the development costs whereby the investor provided US$1.5 million funding in return for an overriding royalty of 20 percent reverting to 2 percent when the investor recovered his cost. During November 2002, the arrangement reached payout and subsequently the gross overriding royalty rate decreased to 2 percent on all future Al Manzah production.

Operating Expense

Operating expense for 2002 amounted to $10,232,000 ($6.59 per barrel) compared to $3,769,000 ($7.65 per barrel) for 2001. The main reason for the reduced operating cost per barrel is the higher level of production combined with the commencement of Egyptian production, mainly gas, which has lower operating costs. District office overhead is a significant component of operating costs and with higher production levels these costs are spread over more barrels. Tunisian operating expense for 2002 amounted to $5,925,000 ($8.30 per boe) compared to $3,769,000 ($7.65 per boe) for 2001. We have implemented cost-cutting measures at the Al Manzah Field where purchase of production facilities that were previously rented has reduced operating costs by $1.00 per barrel. New water disposal equipment at the El Biban Field will reduce operating costs significantly in the future.

Egyptian operating expense for Centurion's fields, which commenced commercial operations on March 31, 2002 amounted to $4,307,000 ($5.12 per boe) for 2002 (2001 – nil).

Netbacks

The netback on the Company production for 2002 (revenue less royalties and operating costs) was $24,072,000 ($15.48 per boe) compared to $10,895,000 ($22.13 per boe) for 2001.

Corporate Netback ($ per boe)	2002	2001
Revenue	**33.42**	31.89
Royalty expense	**(11.35)**	(2.11)
Operating expense	**(6.59)**	(7.65)
Netback	**15.48**	22.13

The netback from Tunisian production for 2002 amounted to $14,839,000 ($20.79 per barrel) compared to $10,895,000 ($22.13 per barrel) in 2001. The netback from Egyptian production for 2002 amounted to $9,233,000 ($10.98 per boe) (2001 – nil). Lower netbacks in Egypt result from a ceiling on the gas price of $4.39 (US$2.80) per mcf when the Brent oil reference price is US$20 or greater and a higher effective royalty rate than in Tunisia.

General and Administrative Expense

The expense for 2002 was $1,904,000 ($1,136,000 capitalized) compared to $1,831,000 ($1,138,000 capitalized) for 2001. The increase in 2002 is a result of increased travel and administrative costs associated with commencing production operations in Egypt.

Interest and Finance Costs

Interest and other costs in 2002 amounted to $1,071,000 (2001 – nil) representing interest on Centurion's bank loan and the financing of the 2001 Egyptian drilling program. In 2001, interest of $719,000 was capitalized related to this drilling program.

Depreciation, Depletion and Amortization

The depletion provision for 2002 was $9,968,000 ($6.41 per boe) compared to $3,373,000 ($7.04 per boe) in 2001.

The depletion provision for Tunisian production for 2002 amounted to $4,581,000 ($6.42 per barrel) compared to $3,373,000 ($7.04 per barrel) for 2001.

The per barrel decrease in 2002 over 2001 results from updated forecasts of future development costs at El Biban. The Egyptian depletion provision for 2002 amounted to $5,387,000 ($6.41 per boe) (2001 – nil). Other depreciation and amortization related to non-oil and gas assets.

Cash Flow and Net Earnings

Cash flow from operations for 2002 was $22,113,000 ($0.35 per share basic and diluted) compared to $8,105,000 ($0.13 per share, basic and diluted) in 2001.

Earnings for 2002 were $6,488,000 ($0.10 per share, basic and diluted) compare to $3,326,000 ($0.05 per share, basic and diluted) in 2001.

Liquidity, Capital Resources and Capital Expenditures

Capital expenditures for 2002 totalled $21,398,000 including $16,694,000 spent in Tunisia and $4,677,000 spent in Egypt. The expenditures in Tunisia were comprised of costs of the SEEB electric power project, Mellita data review, Ezzaouia 3-D seismic costs, the purchase of Al Manzah production facilities and general geological and geophysical programs. The expenditures in Egypt were comprised of El Wastani pipeline costs, engineering design and pre-development costs of the South Manzala pipeline, exploration drilling costs at Hana and general geological and geophysical programs.

Cash on hand at December 31, 2002, was $3,886,000 compared to $2,089,000 at December 31, 2001. Centurion had working capital of $4,112,000 at December 31, 2002 compared to a working capital deficit of $18,061,000 at December 31, 2001. The December 31, 2001 working capital deficit included $6.5 million of SEEB payables which were subsequently replaced by long-term project financing. Additionally, a further $8.7 million was drawn upon the Standard Bank London Ltd. operating line of credit in early 2002, reducing the working capital deficit accordingly. The December 31, 2002 working capital includes $2 million of SEEB accounts payable, which were subsequently replaced by a long-term loan with a resultant increase in working capital.

Strong cash flow from operations during 2002 also had a positive impact on working capital. The commencement of Egyptian operations, resumption of Al Manzah oil production and higher oil prices received for Centurion's oil and condensate production were the major contributing factors.

Net Asset Value per Share

Constant Dollar Pricing

US$22.50 Brent

	(mmboe)	NPVAIT* @ 10% ($mm)	Basic ($ per share)	Fully Diluted ($ per share)
Proved reserves	17.2	118.0	1.89	1.68
One-half probable reserves	10.6	38.3	0.61	0.54
Total proved and one-half probable reserves	27.8	156.3	2.50	2.22
SEEB income from non-owned gas		4.5	0.07	0.06
Debt		(15.6)	(0.25)	(0.22)
Dilution cash		5.7		0.08
Working capital		5.1	0.08	0.07
Net asset value, basic		150.30	2.40	
Net asset value, diluted		156.00		2.22

*Net present value of reserves after income tax.

Per APA Petroleum Engineering Inc., at December 31, 2002

Corporate Events

In February 2002, the Company renegotiated its credit facility with the Standard Bank London Ltd. with an increase to US$30 million. The loan is a borrowing base facility and the borrowing base as determined by the lender determines the amount which can be drawn down.The current borrowing base is US$14 million of which US$10 million had been drawn down at December 31, 2002. Interest on this credit facility is LIBOR plus 4 percent, and principal payments are not required until 2005.

In addition to the Standard Bank London Ltd. financing, the Company and Caterpillar closed a US$20.2 million limited recourse credit facility in connection with the SEEB project. Interest on this facility is at LIBOR + 2.5 percent, with principal payments commencing in February 2003. All interest and principal payments related to this facility will be repaid from SEEB power plant operating cash flows.

No common shares were repurchased in 2002 under the terms of our normal course issuer bid as all available cash flow was focused on commencing production operations in Egypt. Subsequent to year-end, the normal course issuer bid was renewed .

There are a number of inherent risks associated with oil and gas operations and development. Many of these risks are beyond the control of management. The following outlines some of the principal risks and their potential impact to the Company.

Foreign Investments

All of the Company's oil and gas operations and related assets are located outside Canada. These operations are subject to the risks associated with foreign investment including tax increases, royalty increases, renegotiations of contracts, currency exchange fluctuations and political uncertainty. Both jurisdictions in which the Company operates, Tunisia and Egypt, have well established fiscal regimes and there are some improved fiscal terms to encourage investment. Both countries are politically stable and generally have effective control over extremist groups. The U.S. dollar is the functional currency in both operating areas. Centurion is paid in U.S. dollars for the sale of its production except for a 20-percent portion of the Tunisian oil production, which is dedicated to the domestic market. The production sold under the domestic market obligation receives a price equal to 90 percent of the U.S. dollar price for the Brent-based export sales, but the proceeds are paid in Tunisian Dinars which are utilized for Dinars expenditures such as local salaries. The Tunisian Dinar slightly depreciated in 2002, but this has not had a negative effect on the Company as the majority of our revenues are denominated in U.S. funds.

As operations are primarily carried out in U.S. dollars, the main exposure to currency exchange fluctuations is the conversion to equivalent Canadian funds for reporting purposes. Based upon projected 2003 cash flow and a Canadian dollar exchange rate between US$0.65 and US$0.68, the effect for each $0.01 change in exchange rate is less than $0.008 operating cash flow per share, fully diluted.

Commodity Prices

Centurion's oil and gas prices are affected by factors such as supply and demand, oil quality and transportation adjustments. During 2003, the Company expects to have oil sales both from its Tunisian and Egyptian operations. In Tunisia, Centurion is paid a Brent-based price, usually US$1.00 to US$1.50 less than WTI. Brent prices averaged US$24.99 per barrel in 2002 and closed the year at US$30.48 per barrel. Based on projected 2003 oil production, each change of US$1.00 in the Brent price for crude oil over or under US$22.50 per barrel has a $0.025 per share effect on diluted cash flow per share.

Centurion's gas production from its Egyptian reserves has a sales contract with a selling price of US$2.65 per mbtu when the Brent oil reference price is US$20 or greater. The contract also has a floor of US$1.50 per mbtu when the Brent oil price is US$10 or lower with a sliding scale gas price for Brent oil reference prices between US$10 and US$20. Changes in the price for Brent crude oil over US$20 have no impact on cash flow for Egyptian gas production. Each US$1.00 change below US$20 has an impact of $0.015 per share on diluted cash flow per share until the floor price of US$10 is reached.

Oil Price Collars

		US$ per Barrel	
Year	Barrels	Floor	Ceiling
March, 2003	165,000	14.50	25.75
October, 2003	165,000	14.50	25.20
March, 2004	165,000	14.50	24.80

Competition

The oil and gas industry is highly competitive. The Company believes that it is well positioned in Tunisia and Egypt, both in terms of Company-owned infrastructure, excellent land base and significant level of reserves and activity, to compete strongly with other companies operating internationally.

Environment

The Company has an ongoing program to abandon and reclaim well and facilities in accordance with government regulations. Centurion maintains adequate insurance for environmental risks.

MANAGEMENT REPORT

The Management of Centurion Energy International Inc. is responsible for the integrity of its reported financial data. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements in accordance with generally accepted accounting principles in Canada. Management uses internal accounting controls, offers guidance through corporate-wide policies and procedures, and exercises its best judgement in order that such statements reflect fairly the consolidated financial position, results of operations and cash flows of Centurion. The financial information contained elsewhere in this report has been reviewed to insure consistency with that in the Consolidated Financial Statements.

In order to gather and control financial data, Centurion has established accounting and reporting systems supported by internal controls. Management believes that the existing internal controls provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the records are reliable for preparing consolidated financial statements and other data, and maintaining accountability for assets.

Said S. Arrata
President and Chief Executive Officer

BW Swan

Barry W. Swan
Senior Vice-President and
Chief Financial Officer

May 7, 2003
Calgary, Alberta

AUDITORS' REPORT

We have audited the consolidated balance sheets of Centurion Energy International Inc. as at December 31, 2002 and 2001 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
March 28, 2003
Calgary, Alberta

As at December 31	2002 ($)	2001 ($)
Assets		
Current assets		
Cash	3,886,000	2,089,000
Accounts receivable	12,317,000	8,866,000
Inventory (note 2)	622,000	–
Deposits and prepaids	855,000	318,000
	17,680,000	11,273,000
Capital assets (note 3)	113,927,000	100,681,000
Deferred financing costs (note 7)	581,000	–
Future tax asset (note 11)	8,456,000	17,338,000
	140,644,000	129,292,00
Liabilities		
Current liabilities		
Accounts payable	9,550,000	23,080,000
Income taxes payable	561,000	2,225,000
Short-term portion of limited recourse long-term debt	1,573,000	–
Short-term portion of other long-term debt	1,884,000	4,029,000
	13,568,000	29,334,000
Limited recourse long-term debt (note 5)	14,547,000	–
Other long-term debt (note 6)	15,679,000	9,106,000
Reinvestment reserve (note 4)	–	678,000
Provision for site restoration costs	1,314,000	1,335,000
Deferred credit (note 11)	3,617,000	7,414,000
	48,725,000	47,867,000
Shareholders' Equity		
Capital stock (note 8)	58,888,000	58,824,000
Contributed surplus (note 10)	1,079,000	1,009,000
Foreign currency translation adjustment (note 1(b))	9,848,000	5,976,000
Retained earnings	22,104,000	15,616,000
	91,919,000	81,425,000
	140,644,000	129,292,000

Approved by the Board of Directors,

[illegible signature]

Director

BW Swan

Director

For the years ended December 31	2002 ($)	2001 ($)
Revenue		
Oil and gas – net of royalties	34,304,000	14,664,000
Interest income and other	61,000	230,000
	34,365,000	14,894,000
Expenses		
Operating	10,232,000	3,769,000
Depletion, depreciation and amortization	10,405,000	3,493,000
General and administrative	1,904,000	1,831,000
Interest	936,000	–
Amortization of deferred financing costs	135,000	–
Foreign exchange gain	(123,000)	(101,000)
	23,489,000	8,992,000
Income before income taxes	10,876,000	5,902,000
Income taxes (note 11)		
Current	(697,000)	1,290,000
Future	5,085,000	1,286,000
	4,388,000	2,576,000
Income for the year	6,488,000	3,326,000
Retained earnings – beginning of year	15,616,000	12,290,000
Retained earnings – end of year	22,104,000	15,616,000
Basic earnings per share	0.10	0.05
Diluted earnings per share	0.10	0.05

For the years ended December 31	2002 ($)	2001 ($)
Cash provided by (used in)		
Operating activities		
Income for the year	**6,488,000**	3,326,000
Items not affecting cash		
Depletion, depreciation and amortization	**10,405,000**	3,493,000
Amortization of deferred financing costs	**135,000**	–
Future income taxes	**5,085,000**	1,286,000
Cash flow from operations	**22,113,000**	8,105,000
Changes in non-cash operating working capital items	**(3,506,000)**	(45,000)
	18,607,000	8,060,000
Investing activities		
Capital asset expenditures	**(21,398,000)**	(46,589,000)
Sale of half interest in Tunisian power plant	–	1,749,000
Site restoration expenditures	–	(159,000)
Changes in non-cash investing working capital items	**(16,298,000)**	17,020,000
	(37,696,000)	(27,979,000)
Financing activities		
Issue of capital stock	**64,000**	–
Repurchase of capital stock	–	(1,942,000)
Limited recourse long-term debt	**16,555,000**	–
Other long-term debt, net of repayments	**4,380,000**	12,937,000
	20,999,000	10,995,000
Foreign currency translation	**(113,000)**	(523,000)
Increase (decrease) in cash	**1,797,000**	(9,447,000)
Cash – beginning of year	**2,089,000**	11,536,000
Cash – end of year	**3,886,000**	2,089,000
Basic cash flow from operations per share	**0.35**	0.13
Diluted cash flow from operations per share	**0.35**	0.13

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of accounting policies

A) Consolidation

These financial statements include the accounts of Centurion Energy International Inc. (the "Company"); its wholly owned subsidiaries: Ecumed Petroleum Grombalia, Ltd., Ecumed Petroleum Tunisia, Ltd., Ecumed Petroleum Zarzis, Ltd., Centurion Red Sea Petroleum Corporation, Eagle Holdings (Barbados) Limited, Centurion Petroleum Corporation, Espanada Resources Corporation, Duraham Petroleum Limited, 585877 Alberta Ltd., 585882 Alberta Ltd., GHP Exploration (West Gharib) Ltd. and GHP Exploration (Egypt) Ltd.; and the proportionate share of its 50 percent investment in Société d'Electricité d'El Bibane ("SEEB").

B) Foreign currency translation

The Company translates foreign currency denominated transactions and the financial statements of operationally and financially independent foreign operations into Canadian dollars using the current rate method. Under the current rate method of foreign currency translation, assets and liabilities are translated into Canadian dollars at period end rates and income and expenses are translated into Canadian dollars at average rates in effect during the period. Exchange gains and losses on translation are reflected as a separate component of shareholders' equity.

Prior to April 1, 2002, the Company translated its Egyptian assets and liabilities into Canadian dollars using the temporal method. Monetary assets and liabilities were translated at year-end rates. Non-monetary assets and liabilities were translated at rates in effect on the date of the transactions. Revenue and expenses were translated at average rates in effect during the year with the exception of depreciation and amortization which were translated at historic rates. Exchange gains and losses on translation were reflected in income.

The Egyptian subsidiaries commenced commercial operations on April 1, 2002 and were no longer financially and operationally dependent upon the Canadian parent company. Accordingly, effective April 1, 2002, the Company adopted the current rate method of foreign currency translation for its Egyptian operations.

C) Petroleum and natural gas properties and related depletion and amortization

The Company follows the full cost method of accounting, whereby all costs incurred in exploring for and developing oil and gas reserves are capitalized. Such expenditures include land acquisition costs, geological and geophysical expenses, carrying charges for unproved properties, costs of drilling both productive and non-productive wells, gathering and production facilities and general and administrative costs directly related to exploration and development activities. Capitalized costs are accumulated on a country-by-country basis and are depreciated and depleted using the unit-of-production method based upon estimated proved reserves. Natural gas reserves are converted to equivalent barrels of oil on the basis of their relative energy content (6 mcf equals 1 barrel). Costs directly associated with the acquisition and evaluation of unproved properties are initially excluded from the computation of depletion. These unproved properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered impaired, the cost of the property or the amount of the impairment is added to all other capitalized costs subject to depreciation and depletion.

The Company calculates a ceiling test whereby the net capitalized costs of properties and the future tax asset, less the provision for site restoration costs and deferred credit, cannot exceed an amount equal to the estimated undiscounted value of future net revenues from proved oil and gas reserves based on current prices and costs, after deducting estimated future general and administrative expenses, future removal and site restoration costs, financing costs, and income taxes, all undiscounted and unescalated.

Sales of oil and gas properties are accounted for as adjustments of capitalized costs, with no gain or loss recognized unless such adjustments would alter the rate of depletion and amortization by more than twenty percent.

D) Office furniture and equipment and related amortization

The Company provides for amortization on office furniture and equipment using the declining balance method at annual rates of 20-30 percent.

E) Joint ventures

Substantially all of the Company's exploration and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

F) Site restoration costs

Estimated future site restoration costs are provided for over the life of the proved reserves on a unit-of-production basis. Site restoration expenditures are charged to the accumulated provision accounts as incurred.

G) Revenue recognition

Revenues from the sale of oil and gas are recorded, net of royalties, when title passes to the customer.

H) Earnings and cash flow per share

Per share information is calculated on the basis of the weighted average number of common shares outstanding during the year. Diluted per share information assumes exercise of options and warrants at the beginning of the year or date of issue, if later. It is assumed that proceeds obtained upon exercise of options and warrants would be used to purchase common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of this calculation is anti-dilutive.

I) Stock-based compensation plans

The Company has an incentive stock option plan which is described in note 9. No compensation expense is recognized in respect of stock options issued to employees under this plan. Consideration paid on exercise of stock options is credited to share capital.

Effective January 1, 2002, the Company prospectively adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") concerning stock-based compensation and other stock-based payments. As permitted by the recommendations, the Company has chosen not to adopt the fair value based method of accounting for employee stock options. Instead, the Company discloses the pro forma effect on earnings had compensation expense been recorded based on the fair value of employee stock options (note 9). Stock options and warrants issued to non-employees are recorded at their fair market value at date of issuance.

J) Financial instruments

Canadian accounting standards require the disclosure of the fair value of financial assets and liabilities. The fair value of the Company's current financial assets and liabilities are considered to approximate book value due to their current nature, as does the long-term debt, which is at floating rates.

K) Hedging

The Company uses derivative instruments to reduce its exposure to fluctuations in oil prices (note 6). These instruments are used to manage risk and not for trading purposes. Gains or losses on the instruments are included in revenue concurrently with the sale of the related oil.

L) Measurement uncertainty

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

M) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted or substantially enacted tax rates. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs.

In Egypt, the government receives production in lieu of income tax. The Company records this production as income tax expense with a corresponding increase booked to revenue.

N) Comparative amounts

Certain comparative amounts have been reclassified to conform with the presentation format adopted in the current year.

2. Inventory

The inventory of $622,000 as at December 31, 2002 (2001 – $nil) represents approximately 38,000 barrels of produced crude oil that were not sold at year-end. The inventory cost has been calculated using the production and depletion costs incurred in the fourth quarter 2002. Subsequent to year-end, this inventory was sold for gross proceeds approximating $1.8 million.

Capital assets

Petroleum and natural gas properties			
and production equipment	**115,765,000**	**27,937,000**	**87,828,000**
Electrical generation facility	**24,938,000**	**–**	**24,938,000**
Office equipment	**2,544,000**	**1,383,000**	**1,161,000**
	143,247,000	**29,320,000**	**113,927,000**

	Cost ($)	Accumulated Amortization ($)	2001 Net ($)
Petroleum and natural gas properties			
and production equipment	100,809,000	18,009,000	82,800,000
Electrical generation facility	16,496,000	–	16,496,000
Office equipment	2,291,000	906,000	1,385,000
	119,596,000	18,915,000	100,681,000

Approximately 40 percent of the Company's proved reserves in Tunisia are dependant on the completion of a natural gas powered electrical generation facility. In 2001, the Company signed a joint development agreement with Caterpillar Power Ventures Inc. and sold a 50 percent interest in the project to Caterpillar for $1.7 million. Construction of the electrical generation facility is nearly complete, with commissioning expected May 2003. Project financing was secured in early 2002 (see note 5).

As at December 31, 2002, petroleum and natural gas properties include $2,569,000 (2001 – $2,329,000) in respect of unproved properties in Tunisia which have been excluded from depletion calculations.

Head office general and administrative costs capitalized during 2002 were $1,136,000 (2001 – $1,138,000).

Interest costs capitalized during 2002 were $1,033,000 (2001 – $719,000).

Tunisian taxation law permits eligible companies to reduce their taxable income up to 20 percent by participating in a special reinvestment program. Under the program until amended on August 20, 1999, an amount equal to 25 percent of the reduction in taxable income had to be paid into the capital of a Tunisian subsidiary within five years and the balance of 75 percent had to be paid into capital within ten years. Any amount not invested is reincorporated into taxable income. The subsidiary must expend the capital on an eligible investment.

The Company's reinvestment reserve, in the amount of $90,000 at December 31, 2002 (2001 – $678,000) represents the amount of taxes, excluding interest, that would be payable should the required investments not be made. Management does not anticipate any future qualified expenditures under this program. Accordingly, this amount has been included as a component of income taxes payable.

Limited recourse SEEB debt			
Project financing	LIBOR + 2%	**15,727,000**	–
Due to Caterpillar Power Ventures Inc.	13%	**393,000**	–
		16,120,000	–
Amount due within one year		**(1,573,000)**	–
		14,547,000	–

	($)
Principal repayments due in the next five years are:	
2003	1,573,000
2004	1,573,000
2005	1,573,000
2006	1,573,000
2007	1,966,000

On March 18, 2002, Centurion and Caterpillar Power Ventures Inc. (Centurion's 50 percent partner in the SEEB power generation project) closed a US$20.2 million limited-recourse project financing whereby the security is limited to the project assets and a corporate non-performance guarantee of US$750,000. The project financing of $15,727,000 bears interest at LIBOR plus two percent for a 10-year term. All interest and principal payments will be repaid through profits of the SEEB power plant. The proceeds of this project financing have been used to fund construction costs of the SEEB plant with full operations currently scheduled to commence in May 2003. Also included in the limited recourse SEEB debt is an amount of $393,000 in respect of the Company's share of additional project financing provided by Caterpillar Power Ventures Inc. to complete the SEEB project. This additional financing bears interest at 13 percent, however there are no fixed repayment terms nor will the lendor demand repayment in 2003. The Company currently plans to repay this debt with SEEB operating cash flows, yet does not anticipate this to occur within 2003. Accordingly, this additional financing has been classified as a long-term obligation.

Other long-term debt

		2002	2001
	Rate	($)	($)
Credit facility (US$10 million)	LIBOR + 4%	**15,679,000**	6,889,000
Other (US$1.2 million)	13%	**1,884,000**	6,246,000
		17,563,000	13,135,000
Amount due within one year		**(1,884,000)**	(4,029,000)
		15,679,000	9,106,000

Repayments due in the next three years are:

	($)
2003	1,884,000
2004	–
2005	15,679,000

Credit facility

On February 18, 2002, Centurion arranged a US$30 million, four-year term debt facility with the Standard Bank London Ltd. The loan is in the form of a Revolving Credit Facility which can be drawn down as required in accordance with certain borrowing criteria established by Standard Bank. The maximum amount available under the facility declines quarterly by US$2.5 million commencing April 1, 2003 until December 31, 2005.

Interest on the credit facility is payable quarterly at LIBOR plus four percent. Principal repayments are required when the Company's debt drawings exceed the allowable borrowing base provided for in the credit facility. The allowable borrowing base is determined by projecting future cash flows of the Company based upon different weightings to proved producing, proved non-producing and probable reserves. The allowable borrowing base at December 31, 2002 approximated US$14 million resulting in a US$4 million excess over funds drawn under the credit facility at that time. The Company has projected the allowable borrowing base throughout 2003 and does not anticipate any deficiencies triggering a principal repayment during the year. Accordingly, no portion of the US$10 million credit facility drawn at December 31, 2002 has been classified as a current maturity.

Upon closing of the debt facility, Standard Bank London Ltd. was granted 200,000 share purchase warrants exercisable at $0.60 until February 18, 2007. In addition, for each US$2.5 million drawn upon the debt facility a further 100,000 warrants will be granted at 105 percent of the average share trading price 20 days preceding the draw-down date.

Oil sale

In connection with the Standard Bank London Ltd. credit facility, the Company has entered into agreements which establish floor and ceiling prices for specified quantities of oil production as follows:

		US$ per Barrel	
Year	Barrels	Floor	Ceiling
2003 – March	165,000	14.50	25.75
2003 – October	165,000	14.50	25.20
2004 – March	165,000	14.50	24.80

Hedging losses of $1,161,000, incurred as a result of the ceiling prices in place for fiscal 2002, have been recorded as a reduction of oil and gas revenue. Based on the market price of Brent oil at December 31, 2002 of approximately US$30, hedging losses aggregating approximately $3.7 million would be incurred as a result of the collars in place for 2003 and 2004.

Other long-term debt of $1,884,000 represents financing of the Company's Egyptian drilling program provided by an oilfield service company. The debt is repayable in equal monthly instalments to May 2003.

Deferred fina

Deferred financing costs amounted to $581,000 as at December 31, 2002. These costs consist of legal and financing fees relating to the Standard Bank London Ltd. credit facility (see note 6). Also included in the deferred financial costs is an amount of $70,000 related to the fair market value of the share purchase warrants issued to the Standard Bank London Ltd. in connection with the credit facility financing. Deferred financing costs are being amortized over a four-year period commencing February 2002.

Authorized

Unlimited number of common shares
Unlimited number of preferred shares which may be issued in one or more series (none outstanding)

Issued and outstanding

	Common Shares	
	Number of shares	Stated value ($)
Balance at December 31, 2000	64,677,487	61,296,000
Buybacks pursuant to share repurchase plan	(2,524,000)	(2,472,000)
Balance at December 31, 2001	62,153,487	58,824,000
Issued on exercise of options	159,500	64,000
Balance at December 31, 2002	**62,312,987**	**58,888,000**

In accordance with a Normal Course Issuer Bid filed with the Toronto Stock Exchange December 19, 2000, the Company purchased and cancelled 2,524,000 common shares in 2001 at an average cost of $0.77 per share.

On February 12, 2003, the Normal Course Issuer Bid was renewed. Under the terms of this renewed bid, the Company is permitted to purchase and cancel up to 3,115,594 of its common shares prior to February 11, 2004.

The Company issued 1,704,546 warrants as part of the private placement share issue during 2000. Each warrant entitles the holder to purchase one common share of the Company at a price of $1.20 until December 22, 2003.

During 2002, 200,000 share purchase warrants were issued in connection with a debt financing (see notes 6 and 7). These share purchase warrants are exercisable at $0.60 until February 18, 2007.

9. Incentive share option plan

The Company has a share option plan (the "Plan") for directors, officers and employees of the Company and its subsidiaries. The Plan provides that the aggregate number of common shares which may be reserved for issuance shall not exceed 8,000,000 common shares and that the aggregate number of common shares which may be reserved for issuance to any one individual shall not exceed 5 percent of the outstanding shares. The Plan is administered by the Board of Directors. The exercise price of the common shares covered by the issued stock options is determined by the directors but cannot be less than the trading price the day before the options are granted. The exercise period of the options is fixed by the Board of Directors and is not to exceed the maximum period permitted by the Toronto Stock Exchange. Vesting rights are determined at the discretion of the Board of Directors.

The following is a summary of changes in outstanding stock options for the years ended December 31, 2002 and 2001:

	2002		2001	
	Share options	Weighted -average exercise price ($)	Share options	Weighted -average exercise price ($)
Outstanding				
– Beginning of year	**5,373,333**	**0.71**	4,673,333	0.78
Granted	**2,740,000**	**0.60**	1,175,000	0.47
Exercised	**(159,500)**	**0.40**	–	–
Forfeited	**(1,853,000)**	**1.02**	(475,000)	0.75
Outstanding				
– End of year	**6,100,833**	**0.58**	5,373,333	0.71
Options exercisable				
– End of year	**4,966,666**	**0.57**	4,997,222	0.73

The following table summarizes information about stock options outstanding at December 31, 2002:

	Options Outstanding		Options Exercisable	
	Options outstanding	Weighted -average remaining contractual life in years	Options exercisable	Weighted -average remaining contractual life in years
$0.40	325,000	0.8	325,000	0.8
$0.46	1,182,500	3.7	1,041,667	3.7
$0.53	133,333	2.4	133,333	2.4
$0.57	370,000	2.0	370,000	2.0
$0.58	750,000	2.3	750,000	2.3
$0.60	2,740,000	4.6	1,763,333	4.6
$0.65	50,000	4.3	33,333	4.3
$0.67	25,000	2.7	25,000	2.7
$0.76	100,000	0.4	100,000	0.4
$0.84	425,000	2.9	425,000	2.9
	6,100,833		4,966,666	

As permitted by the CICA's recommendations concerning stock-based compensation (see note 1(i)), the Company has chosen not to adopt the fair value based method of accounting for employee stock options. Had the Company adopted the fair value based method of accounting for employee stock options granted during the current year, reported earnings for the year ended December 31, 2002 would have been reduced by $428,000 and reported earnings per share would have been reduced by $0.01 per share (basic and diluted).

The estimated fair value of $0.33 per option, which would have been amortized over the vesting period, has been determined using a modified Black-Scholes option pricing model with the following assumptions:

	($)
Risk-free interest rate	4.39%
Expected life	5 years
Estimated volatility in the market price of the common shares	65%
Dividend rate	0.00%

10. Contributed surplus

	($)
Balance – December 31, 2000	479,000
Common shares repurchased at a discount to carrying value	530,000
Balance – December 31, 2001	1,009,000
Fair market value of warrants issued in connection with debt financing (note 6)	70,000
Balance – December 31, 2002	**1,079,000**

11. Income taxes

The difference between the income tax provision recorded and the provision obtained by applying the combined federal and provincial statutory rates is as follows:

	2002 ($)	2001 ($)
)Income before income taxes	**10,876,000**	5,902,000
Canadian corporate tax rate	**39.2%**	43.1%
Calculated income tax provision	**4,263,000**	2,544,000
Effect on taxes from		
foreign tax rate differential	**2,107,000**	407,000
Expenses incurred with no recognized tax benefit	**1,815,000**	740,000
Amortization of deferred credit	**(3,797,000)**	(1,115,000)
	4,388,000	2,576,000

The future tax asset of $8,456,000 at December 31, 2002 (2001 – $17,338,000) relates to the excess of the unclaimed tax deductible costs of capital assets in Tunisia over the related net book carrying value. The future tax asset of $8,456,000 is net of a valuation allowance of approximately $8,000,000. This allowance relates to the tax deductible cost related to various properties for which there are currently insufficient proved reserves to support the recording of a future tax asset. The future tax asset will be realized through future capital cost deductions for income tax purposes exceeding book depletion and depreciation.

The deferred credit of $3,617,000 at December 31, 2002 (2001 – $7,414,000) arose on the purchase of the Tunisian oil and gas properties in 1996 for cash consideration of $11 million and represents the excess of the future tax assets and other net assets acquired as compared to the purchase consideration. The deferred credit is amortized in proportion to the realization of the future tax asset.

12. Segmented information

	Canada ($)	Egypt $ ($)	Tunisia ($)	Total ($)
December 31, 2002				
Revenue	**36,000**	**13,530,000**	**20,799,000**	**34,365,000**
Capital assets	**396,000**	**43,156,000**	**70,375,000**	**113,927,000**
Capital expenditures	**27,000**	**4,677,000**	**16,694,000**	**21,398,000**
December 31, 2001				
Revenue	230,000	–	14,664,000	14,894,000
Capital assets	491,000	42,067,000	58,123,000	100,681,000
Capital expenditures	–	27,644,000	18,945,000	46,589,000

13. Supplemental cash flow information

Cash, taxes and interest

	2002 ($)	2001 ($)
Cash taxes paid	**1,111,000**	1,823,000
Cash interest paid	**1,862,000**	719,000
Cash interest received	**25,000**	192,000

14. Earnings per share

	2002	2001
Income for the year	**$ 6,488,000**	$ 3,326,000
Weighted average number of common shares	**62,313,000**	62,470,000
Dilutive securities – warrants and options	**561,000**	546,000
Basic earnings per share	**$ 0.10**	$ 0.05
Diluted earnings per share	**$ 0.10**	$ 0.05

CORPORATE INFORMATION

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TERMS AND ABBREVIATIONS

AIT	after income taxes
bcf	billion cubic feet
boe	barrels of oil equivalent (1 boe = 6 mcf)
boepd	barrels of oil equivalent per day
Centurion	Centurion Energy International Inc.
mboe	thousand barrels of oil equivalent
mbtu	thousand British thermal units
mcf	thousand cubic feet
mm	millions
mmbbls	million barrels
mmboe	million barrels of oil equivalent
mmcf	million cubic feet
mmstb	millions of stock tank barrels of oil
NPVAIT	net present value after income tax
ppm	parts per million
WTI	West Texas Intermediate
2-D	two-dimensional seismic survey
3-D	three-dimensional seismic survey

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